

PERAC PENSION NEWS

A publication of the Public Employee Retirement Administration Commission | April, 2004

PERAC FORUM ON CORPORATE GOVERNANCE



State Auditor DeNucci to Kick Off Forum on Corporate Governance & Public Pension Investments

The Public Employee Retirement Administration Commission (PERAC) is pleased to announce a Forum on "Corporate Governance and Public Investments." The Forum will be held on Tuesday, June 15th at the Hogan Conference Center at Holy Cross College in Worcester, Massachusetts. Opening remarks will be delivered by the Vice Chairman of PERAC, State Auditor A. Joseph DeNucci.

Joining Auditor DeNucci on the program will be the Honorable Timothy Cahill, Treasurer and Receiver-General of the Commonwealth, and former Massachusetts Attorney General L. Scott Harshbarger. Representatives from the Securities and Exchange Commission, Bentley College, the John F. Kennedy School of Government, and the Securities Division of the Office of the State Secretary will also participate.

PERAC, Massachusetts' oversight agency for the state's 106 public pension systems and one financial fund of

the Commonwealth, has a keen interest in ensuring that the latest information on corporate governance and public pension investing is made available. In the past few years, deficiencies in corporate governance practices have contributed to catastrophic losses, draining billions of dollars from institutional investors.

In Massachusetts, retirement system board members and their fund managers are responsible for investing more than \$43 billion of pension fund assets. At the Forum, the board members, who are entrusted with protecting pension fund assets, will gain a deeper understanding of the critical importance of investing in corporations that adhere to sound governance principles.

In early May, the Public Employee Retirement Administration Commission will mail registration materials to the public pension community. Please contact PERAC for more details.

In This Issue

- Employer Supplied Vehicles
- Understanding the State Funded Ratio
- Investment Returns 2003

Public Employee Retirement Administration Commission

Five Middlesex Avenue
Third Floor
Somerville, MA 02145
ph 617 666 4446
fax 617 628 4002
web www.mass.gov/perac

Domenic J. F. Russo
Chairman

A. Joseph DeNucci
Vice Chairman

C. Christopher Alberti

Kenneth J. Donnelly

Eric A. Kriss

James M. Machado

Donald R. Marquis

Joseph E. Connarton
Executive Director



LEGAL ISSUES: EMPLOYER SUPPLIED VEHICLES

In 2003, the Contributory Retirement Appeal Board ruled that the value of personal use of an employer-supplied vehicle was not regular compensation. Two retired fire chiefs appealed those

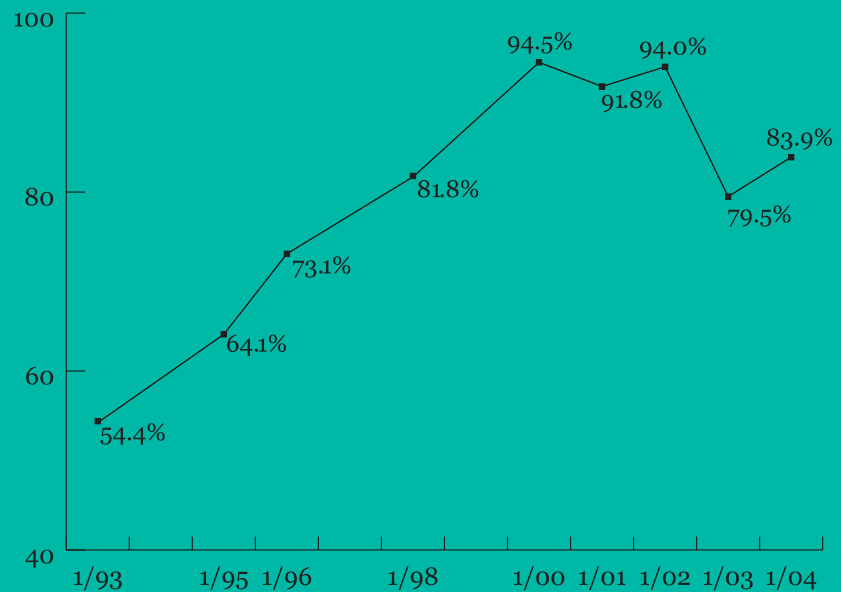
decisions to Superior Court. All sides, including the Commission, recently filed briefs in the cases and hearings will be scheduled in the near future. Depending on the outcome of those

cases and one other pending in the Superior Court, the Appeals Court or the Supreme Judicial Court may become involved in determining the ultimate conclusion.

ACTUARIAL INSIGHT: UNDERSTANDING THE STATE FUNDED RATIO

The chart shows the State Retirement System's funded ratio progress since 1993. The funded ratio represents the actuarial value of plan assets divided by the actuarial accrued liability. When the funded ratio reaches 100%, a system is said to be fully funded. Note that the fund has made steady progress when viewed over the 11-year period despite the negative asset returns from 2000-2002.

STATE FUNDED RATIO



INVESTMENT RETURNS 2003

The PERAC Investment Unit is at work compiling the 2003 investment returns for Massachusetts public pension funds for our Annual Report, which is expected to be published in early June. Based on returns computed to date, it appears that the median return for the systems will be in the range of 20%, consistent

with the returns reported by other public pension funds nationwide. The systems having strong performance last year were generally those that had 60% or more of their portfolios invested in domestic or international equities. Those systems that had healthy allocations to midcap and small cap equities,

or which had exposure to emerging markets, did particularly well. Boards with lagging returns last year were generally those whose asset allocations were tilted toward bonds or where asset allocation was negated by poorly performing managers.

JOIN THE PENSION NEWS E-MAIL LIST

All members of the Massachusetts public pension community are invited to join PERAC's e-mailing list for *Pension News*. Six times a year members will receive updates on public pension

issues, PERAC activities, upcoming events, legislative activity, and recent legal decisions. The goal of *Pension News* is to bring a timely and helpful focus to the issues of the day.

Thanks to everyone who has joined the e-mail list so far. New readers should send e-mail addresses to Sarah Kelly (Sarah.Kelly@state.ma.us).